

85-0024 | 49

OTE 85-1605

MEMORANDUM FOR: Associate Deputy Director of Intelligence 1-8

FROM: Harry E. Fitzwater
Deputy Director for Administration

SUBJECT: Financial Planning Courses

REFERENCE: Memo to DDI, dtd 20 August 1985, fm
[redacted] NESA

STAT

1. I asked the Office of Training and Education, (OTE), and the Office of Personnel, (OP), to look into the proposal made by [redacted] regarding courses on financial planning. Both Offices believe this idea has merit.

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2. OTE is already offering a segment in the Agency Orientation and Office Procedures Course which covers how to manage one's personal finances. This helps those employees at the clerical level. However, I think we ought to try to get to a wider audience. In this vein, OP and OTE will work together to put on a financial planning session in the Auditorium. We have already identified someone who is both interested and capable of providing a presentation on financial planning.

3. I appreciate your passing along this idea.

/s/ Harry E. Fitzwater

Harry E. Fitzwater

cc: EXDIR

Distribution:

Orig - Adse
1 - DDA
1 - DTE Chrono
1 - ADC/OTE
1 - OTE [redacted]

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DDA/OTE/ADC: [redacted] (5Sept85)

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NOTE TO: Deputy Director of Administration

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FROM: Robert W. Magee
Director of Personnel

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SUBJECT: Financial Planning Course

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Per your request, we have discussed with [] staff the idea of a Financial Planning Seminar for employees. Since this type of seminar is not job or skill related, I believe the Office of Personnel should take it on as an Agency-wide service oriented project rather than the Office of Training and Education (OT&E). [] fully agrees with this approach.

I've asked [] to develop such a program around a full or half day presentation by []. Also, we would like to explore having [] do the financial presentation for next year's Retirement and Financial Planning Seminar. You may recall that he participated several years ago, but because of the practice of changing briefers from time to time, he was dropped from the seminar. We are again due for a change in the financial planner and [] would be ideal. Would you like us to contact [] or would you rather make the contact?

I understand that OT&E has prepared the response you requested for your signature in reply to Dick Kerr's note and [] memorandum. We will keep you posted as we firm up an agenda and time frame for the Financial Counseling course.

STAT

[]
/Robert W. Magee



Central Intelligence Agency
Office of the Deputy Director for Intelligence

85-0024/46

21 August 1985

NOTE TO: EXDIR
DDA

This proposal sounds like a good idea
but I don't know how to do it.



Richard J. Kerr
Associate Deputy Director
for Intelligence

STAT

Attachment:
DDI 04211-85, dtd 20 Aug 1985

DD/A Registry
85-0024/15

DDI- 04211-85

20 August 1985

MEMORANDUM FOR: Deputy Director for Intelligence

FROM:

[REDACTED]
Chief, Research Branch
Persian Gulf Division, NESAS

STAT

SUBJECT: Search for Excellence Suggestions
Financial Planning Courses

1. The attached article from a recent issue of Fortune magazine indicates that providing financial planning courses for employees has become a significant private sector perk. It is my understanding that the only Agency financial planning program is for employees nearing retirement.

2. I think our employees would benefit from financial planning courses. Moreover, the Agency would benefit if employees feel financially more secure. The need for such courses recently has been driven home to me.

- One of my employees and her husband have hired a consultant to help them prepare a financial plan. The going rate for a plan is 1% of their annual earnings.
- My secretary is about to rent a townhouse and has spent considerable time and effort examining her budget.
- My Deputy Division Chief and I have discussed his various investment options to finance his son's education as well as for retirement.
- My wife and I are closely reexamining our investments for our daughter's education and for longer-term capital appreciation. I also am reexamining my insurance needs given UBLIC's higher coverage.

3. It strikes me that the agency could usefully provide a range of 1-3 day courses that would meet the varying financial needs of our employees. For example, a single GS-07 secretary, a married GS-13 analyst with 2 children, an overseas DO officer, and a 50-year-old SIS executive are likely to have significantly different financial needs and goals. If

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courses are offered, I would recommend that private firms be used. This would avoid having to train OTE teachers and would allow us to seek out the most relevant private sector expertise. Although courses could be during work hours, they also could be held on weekends or in the evening.

4. I have sent you this idea because I do not know with whom to raise it. If you think it has merit, please forward the idea to someone who can take action or let me know with whom I can pursue the topic.

STAT

Attachment:
As stated

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MANAGING/COVER STORY

EXECUTIVE PERKS UNDER FIRE

Reagan's tax reform is the latest of many efforts to squeeze these special benefits, but so far most have eluded the death grip. Companies keep coming up with new ways to deliver the same old goodies, or new ones. ■ *by Felix Kessler*

ANY AMERICAN executive worth his perks might be a bit worried nowadays about the continued availability of these special benefits. First, the Internal Revenue Service got tough on company cars—hand over the keys to the Merceries, please—as part of an intense scrutiny of perks dictated by the Deficit Reduction Act of 1984. Now the Reagan Administration proposes to limit the deduction for business lunches to \$25 plus half the cost of anything above that; if you're going to have three martinis, you'll have to skip the food. And it wants to curtail the ability of companies to provide country club memberships. Is nothing sacred? Not even golf?

Don't hang up your Gerald Ford signature-model madras patch pants quite yet. When Congress or the IRS has taken aim at a particular perk, such as company cars, businessmen have usually screamed and come up with ways to retain it. As Reagan and Congress inch toward more comprehensive tax reform, this drama of feint and counterfeint promises to grow even more creative. The likely outcome? Consultants on benefits are confident that most perks will survive. A few may be deep-sixed, but not enough to sink the whole practice.

The experts think this is true even though the decline in personal tax rates since 1980 has taken some oomph out of the original rationale for perks. Noncash benefits from paid club memberships to free personal computers were conceived partly as a way to keep

RESEARCH ASSOCIATE Joshua Mendes

managerial cadres whole, as the phrase goes, in the face of the tax man's depredations; the recipient wouldn't have to pay out his own hard-earned after-tax dollars for these adjuncts to his style of life. But the tax burden on high earners has been lightening—the average married citizen with taxable earned income of \$100,000 paid federal tax of \$39,700 in 1980, only \$32,400 in 1984.

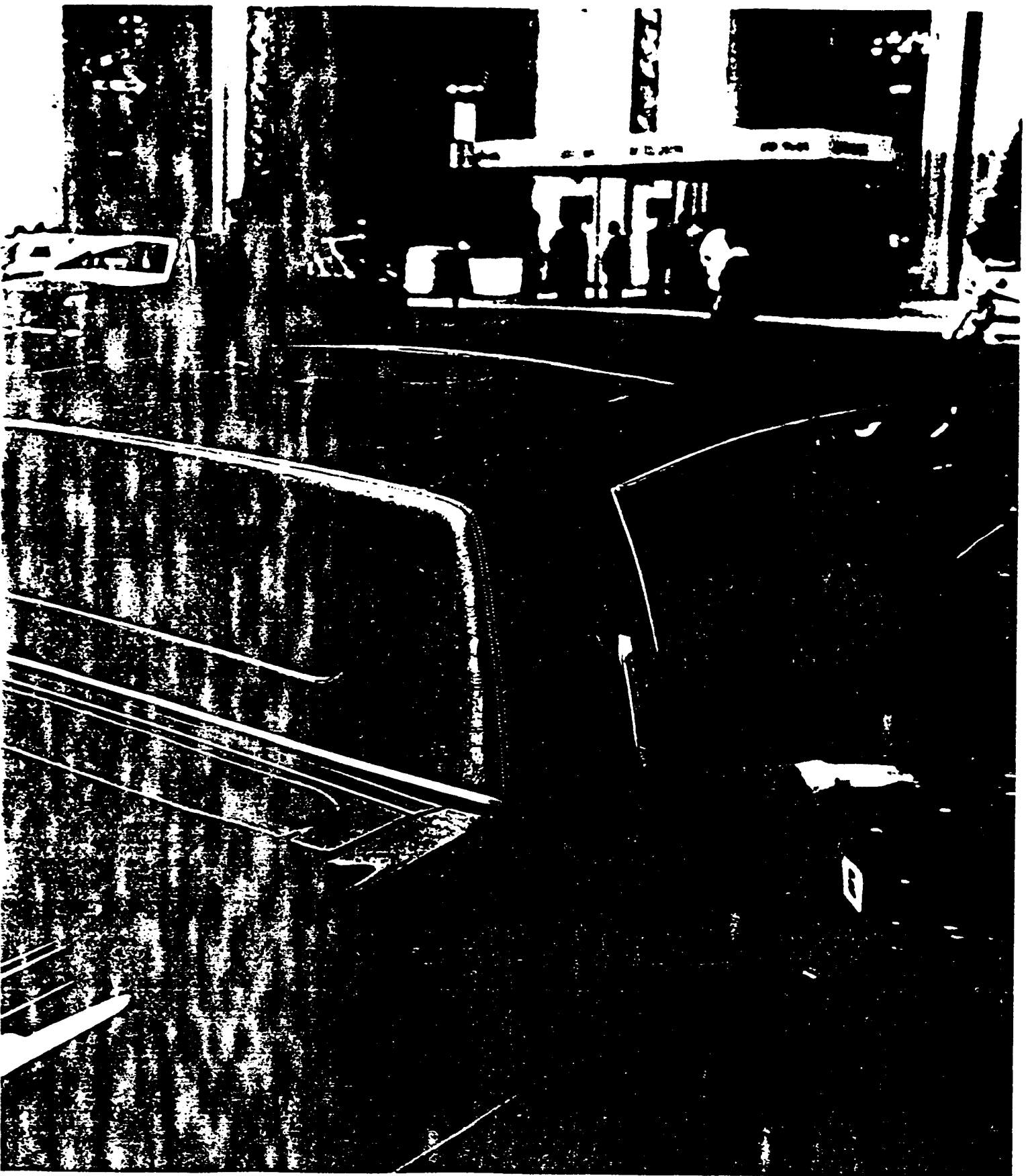
Now tax rates may decline even further. Will that affect perks? In arguing that it won't, the experts point out that while statistics on their prevalence are scarce, perks seem to have more than held their own in the face of the declining tax rates of the past five years. Although the proposed cuts are bigger than any so far, the consultants say perks will persist even if the top individual tax rate is knocked down to 35%, the level proposed by the Administration.

As the coming tax debate will doubtless make clear, perks are hard to define precisely. In general, an individual qualifies for a perk because of his rank in an organization—this distinguishes perks from compensation based on performance. Thus, an executive whose division has a so-so year usually isn't required to turn in the Mercedes the company leases for him, even though his bonus may be chopped.

In deciding whether a particular benefit constitutes a perk, what's most important is the answer to the question "Does it primarily benefit the corporation or the individual?" If it obviously helps the company make money, it's probably not a perk; if it just benefits



Big and sassy, TV-equipped stretch limousines like



As one on New York City's Park Avenue represent a sumptuous nine-mile-per-gallon perk. After free physicals, company cars are the most widespread perk.

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The colonnaded Greenbrier in White Sulphur Springs, West Virginia, boasts a golf course, tennis courts, and a spa to relax in. One doesn't just come for the fun, though—companies pay to have their executives take annual physical checkups at a clinic on the hotel grounds.

the individual, it clearly is. The trouble is, many putative perks do some of both. The President's tax reform plan comes down hard on business lunches, but when an executive buys someone outside the company an expensive meal to sell him something, is that a perk? Okay, so he gets a free meal. But how much can he relax and enjoy it? On the other hand, does helping pay for his children to attend college, as a few corporations do, benefit the employer? Arguments can be made that there is a corporate benefit, but one has to stretch.

CONGRESS HAS PUT the heat on perks partly in response to what some perk planners see as a mounting populist backlash against benefits that go only to the top few. Probably more of an impetus, though, is the loss of potential tax revenue. Recipients often pay taxes on some of the perks they receive. But this tax is virtually always less than the recipient would pay on the extra income he would have to earn to buy this bit of good living

himself. His company also gets a break.

For example, say that a company provides its chief executive a pied-à-terre near headquarters, and assume that the apartment's value is \$100,000 a year. Also assume that he pays taxes on the value at the 50% maximum rate on earned income—so he's out \$50,000. For him to acquire the same apartment with his own money, he would have had to pay \$100,000 in after-tax dollars.

The deal works well for the company too. Wanting to compensate its chief executive adequately and retain his services, it spent \$100,000 on the apartment. To compensate him as copiously with mere money, it would have had to give him a raise of \$200,000, so he would have \$100,000 left over to pay for the apartment after paying \$100,000 in tax. The only loser is Uncle Sam. The arithmetic is complicated, but the loss to the Treasury, assuming the corporation pays taxes at the 46% maximum corporate rate, works out to thousands of dollars.

The widespread granting of perks, short for perquisites, is a fairly recent addition to

the compensation practices of corporate America. "Not too long ago, the word perk was considered very British," says Charles Gadsden, a senior vice president of Hayes/Hill, a management consulting firm headquartered in Chicago. Once faced with punishing tax rates of over 80%, British executives pioneered the managerial technology whereby their companies provided them Rolls-Royces, Mayfair flats, and Savile Row suits. "It's only in the last ten years that perks mushroomed here," observes Gadsden.

No statistics pin down what percentage of executive compensation perks represent in corporate America or what level of executive usually gets this perk or that. But they are widespread and extend well beyond the boss and top company officers. One study of 237 companies found that 93% provided executives free physical examinations. Beyond that, a survey of 350 industrial companies by Sibson & Co., a compensation consulting firm, indicates that the following are among the most popular: 43% of the companies queried provided officers company cars, 38%



Wired to an electrocardiograph, an executive labors on a treadmill during a two-day, \$440 physical exam at the \$190-a-night Greenbrier.

The independent clinic was established in 1948 and nowadays checks more than 1,000 executives a year, mostly at company expense.

paid for country club memberships, 28% paid for memberships in luncheon clubs, 21% paid the total medical expenses of officers, and 13% offered legal counseling. A survey conducted by Executive Compensation Service, a subsidiary of the consulting firm of Wyatt Co., zeroed in on how 465 corporations treated their chief executives: 80% gave them cars in 1983, vs. 68% in 1981. At some companies the cost of perks now represents up to 10% of the total expended on executive compensation.

The ingenuity of American executives and their advisers, not the whims of Congressmen or IRS policymakers, establishes the frontiers of perkdom. "Compensation specialists are capable of as much creativity as the government," says Carol M. Bowie, editor of *Executive Compensation Reports*, which tracks perks through proxy statements, employment contracts, and filed documents. "There are certainly many things passed on to the executive for which he pays no taxes—and there haven't been very many cutbacks." No indeed. Gadsden of the

Hayes/Hill firm says, "There were fewer perks around in the days of 70% tax rates than there are today." The 70% rate was the highest rate on so-called unearned income—investment income, for instance—from 1971 until 1982.

UNDER Securities and Exchange Commission regulations, corporations needn't disclose an executive's perks if the total value is less than \$25,000 or 10% of the executive's salary, whichever is lower. Since it's up to the companies to determine the cost of perks, some may modestly underestimate them. The tax code doesn't use the word perquisite; it refers to "fringe benefits," each of which is taxed according to rules particular to that benefit. But a sampling of proxy statements suggests the variety of perks available at the highest levels:

► **TRANSPORTATION.** Atlantic Richfield Co. spent \$120,000 in 1983 operating corporate aircraft, including a customized Boeing 707, to shuttle Chairman Robert O. Anderson be-

tween his residence in New Mexico and the oil company's Los Angeles headquarters. The company's management, arguing that such spending really doesn't constitute a perk, decided to leave the figure out of the proxy statement for 1984.

► **LOW-INTEREST LOANS.** Allegheny International reported that in 1984 Chief Executive Robert J. Buckley had \$2,921,840 outstanding in loans from the company at 2% annual interest under a corporate stock purchase program. Other officers and directors of the company have borrowed a total of \$16.8 million under the same program.

► **HOUSING ALLOWANCE.** May Department Stores last year paid Vice Chairman Allan Bloostein a \$25,000 "allowance attributable to his living in New York." He in turn paid tax on the amount.

► **FINANCIAL COUNSELING.** Northrop disclosed a somewhat strange aggregation of perks received by its chief executive, Thomas V. Jones, last year. Its proxy statement lists \$55,240 as the value of tax counseling, the preparation of his tax return,

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and certain travel expenses of his spouse.

An executive need not work at a corporate behemoth to benefit from such largess. At BMC Industries, a St. Paul electronics company with annual revenues of about \$330 million, executives concoct their own packages of perks valued at 10% of base pay. They choose from a menu offering company cars, family travel, personal computer leases, financial and legal counseling, home security, day care for children, insurance, and club fees. Ken Lewis, vice president of human resources, explains, "Executives can take just about any outside service that would facilitate their mental or physical well-being or attention to the job." Favorite perk at BMC? A company car.

Nationwide the fastest-growing perk in recent years may be the least spectacular—financial counseling. Of 869 companies surveyed in 1984 by the Hay Group, a prominent consulting firm in the compensation field, about one-third provided financial counseling to executives, vs. only one-fifth four years earlier. The rationale for this perk, according to Hay consultant David Duerr, is that financial counseling frees executives to concentrate on their jobs; they no longer have to worry about bouncing checks or spend time looking for ways to shelter their income. While IRS rules require executives to pay tax on the value of the counseling, in computing their income they can deduct any of that value related to preparing their taxes or educating themselves about investments. And, as one perks planner confides, "It's all educational."

To achieve popularity, financial counseling had to overcome obstacles, including some thrown up by less than professional practitioners. "Some financial counselors were peddling insurance or investment plans," Duerr says, "and there was a question whether the employer was liable if an executive made a lousy investment in an oil field in Brooklyn." And since the financial adviser was paid by the company, how could an executive be sure that he would get the best investment advice when his interests and the company's diverged?

COMPANIES MOOTED much of the liability question by requiring the executives to select their financial counselors themselves after hearing several firms make competitive pitches. A typical contestant might be Ayco Corp., an Albany, New York, subsidiary of American Express Co., whose staff of 100 tax lawyers and clientele of more than 2,000 executives

makes it one of the industry's largest outfits. Counseling isn't cheap: Ayco's top-line service includes monthly sessions and, says Theodore R. Buyniski Jr., a senior staff attorney, costs an "absolute minimum" of \$50,000 a year. More commonly, a company pays an adviser perhaps \$5,000 annually to review an executive's investments, income tax, and benefits plans several times a year.

While the employer foots the bill, Ayco avoids a conflict of interest by making clear that it's working solely for the executive, says Buyniski. He notes that financial counselors sometimes are consulted about job offers received by the executives they counsel:

Can't executives earning \$100,000 a year afford to buy their own cars? You don't understand, respond the experts; it's not a question of affording, it's a question of feeling loved.

"We don't go back to his boss and say, 'Hey, so-and-so is planning to quit.'"

When Congress changes the tax status of a particular perk, the degree to which American executives have become wedded to it rapidly becomes apparent. Consider the recent brouhaha over the company car.

From tax time immemorial, the law has required executives to report as income the value of whatever personal use they make of cars furnished by their employers. Up until last year, though, "there were no hard-and-fast rules," says Margaret Handmaker, a principal with William M. Mercer-Meidinger, New York compensation and benefits consultants. "People would report \$50- or \$100-a-month income when the cars weren't used for business at all." That made cars a good perk all around. Companies bought cars with pretax revenues, claiming up to \$1,000 a car as an investment tax credit, depending on the model. Some companies then wrote down the value of the asset at an extraordinary rate, depreciating a \$50,000 Mercedes, say, over three years, and allowing the grateful executive to buy it as a bargain at the end of that period.

Then, in accordance with provisions of the

Deficit Reduction Act of 1984, the IRS ruled that for companies to qualify for investment tax credits on the vehicles, executives had to keep logs proving that they used the cars at least 50% for business. The maximum credit was reduced to \$675 this year and would be dropped altogether under the proposed tax overhaul. The IRS also imposed a \$16,000 cap—since reduced to \$12,800—on the first three years of depreciation that companies can take on executive wheels.

The initial response of business was confusion. Florida's Sun Banks, for example, simply dumped its entire 1,200-car fleet. A Cadillac marketing executive attributes an almost 10% decline in the luxury car's sales this spring to perplexity over the IRS move. But most companies want to retain their executive cars. Smaller companies regard corporate cars as a vital lure in recruiting, says Gary E. MacDougal, chairman of Mark Controls Corp., an Evanston, Illinois, equipment maker that provides senior executives with a \$14,000 allowance to buy a car. "If you didn't have it, you'd lose people," he says. "We've got to do it to remain competitive."

Can't executives earning \$100,000 a year afford to buy their own cars? You don't understand, respond the experts; it's not a question of affording, it's a question of feeling loved. "You can't justify any perk on financial grounds alone," asserts James R. Baehler, a former Xerox and CBS executive and author of a how-to guide called *Book of Perks*. "If a guy's making a half million, he can afford to buy his own limousine. But if everyone knew he bought it, the limo wouldn't have the same status as when it's given to him because he's so important to the company."

The confusion has left corporate policy on cars all over the lot. At PepsiCo, 400 senior executives who receive car perquisites see the estimated value of their personal use show up on their W2 forms. "We impute a certain amount of income to them, and they pay personal taxes on that," says Charles Rogers, PepsiCo's compensation and benefits director. The IRS provides a handy chart on how much to impute, based on the car's value and how much the executive says he uses it for business—the IRS has relaxed the requirement that he keep logs. For example, a \$40,000 car driven for business 60% of the time would represent about \$4,300 in annual income to an executive.

"Such arrangements are still a better deal than buying a car with after-tax dollars," says consultant Handmaker. Her firm's survey of 310 employers disclosed that 98% will either



Attorney Judy Needham of the financial counseling outfit Ayco Corp. leads a tax and personal finance seminar for Texas Instruments executives at an airport hotel. More senior executives receive counseling in private. Financial counseling is the fastest-growing perk.

retain cars or increase executive pay so that recipients won't be out any money if they have to buy or lease the vehicles themselves. Security Pacific National Bank in Los Angeles, which shed 350 cars last fall, pays all the extra tax on the personal use value above \$1,200 for the 85 senior vice presidents who retained the cars.

"Grossing up" executive pay like this to compensate for tax has fired controversy. It strikes some consultants as gross indeed. "To me, it's unconscionable," says Jude Rich, a principal of Sibson & Co., who argues that if a company just wants to pay an executive more, it should make that extra pay contingent on performance. He notes that executive compensation doesn't get cut when taxes fall.

Others worry that the practice may fuel populist backlash. As part of the tax-law changes under way since last year, Congress has increased taxes on benefits that lower-level employees receive—membership in health clubs, for example. A. W. Smith Jr., vice president of the Wyatt consulting firm,

asserts that keeping perks in the face of declining tax rates will seem all the more unjust if companies gross up executive pay without doing the same for other employees. "Congress doesn't want to reduce benefits for the rest of the workers," he says, "and continue tax-favored status for executives."

SENSITIVITY over how the public might perceive such matters, coming on the heels of controversy over golden parachutes and million-dollar executive pay packages, seems to be causing at least some corporate directors to bridle at the prospect of granting additional perks. "I think perks are getting more complicated than they're worth," says Robert W. Lear, 68, formerly president of Indian Head Corp., then head of F.&M. Schaefer Corp., and now a director of a half-dozen companies.

The most imperiled perks are clearly those whose tax deductibility to the company is threatened, such as country club memberships. The popularity of club memberships as a perk may be declining anyway, and hav-

ing to pay for them out of after-tax dollars will probably persuade some companies to raise salaries to cover the dues or dispense with the perk altogether. Perks that the company can still deduct, in part or in full—executive cars, for example—should escape pretty much unscathed. And new perks will almost certainly be invented. "The government thinks it's limiting perks," says Thomas Paine, a partner at Hewitt Associates, a New York City consulting firm, "but it's only encouraging different behavior. People will act to maximize benefits to themselves."

If Congress lowers the top tax rate to 35%? Well, that's still 35% and, as Richard Reichler, a principal of the Ernst & Whinney accounting firm, observes, "Zero is better than 35%." Zero is the effective tax rate on a beautifully furnished corner office.

Like the poor, perks in some form will always be with us, says author Baehler, mostly because their primary purposes seem irresistible: "To keep the people you want, and to keep them happy and productive." Or in a word, perky. □